

The Council

August 7, 1950

Mr. E. Lary

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Following an invitation by telephone yesterday, I had lunch today with [REDACTED] whom I had seen in Moscow [REDACTED]

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We talked chiefly about the U.S. and international economic situation and about China. [REDACTED] academic background was revealed in a considerably more objective and balanced approach than one usually finds in Soviet representatives or even in other Soviet economists. On the U.S. economic situation, he expressed strong dissent with current predictions of impending crisis by the famous, and now aged, Soviet economist Varga. His chief point was that Varga, along with many other Soviet economists, underestimated the basic strength of the forces making for a high level of investment in the U.S. I stressed, in reply, that our post-war economy had shown strong and successful resistance against any cumulative downward tendencies. He was well aware already of the much greater strength of our banking system compared with the 1930's. He was also aware of the current strength of our imports and of the general behavior of our balance of payments. [REDACTED] inquired about the visits here of the U.K. Treasury missions but did not press the question.

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I led into the subject of China via the new U.N. population report, saying that while, as he had indicated, one might imagine that tolerable or eventually even cordial relations might develop between the U.S. and the U.S.S.R., any such balance was likely to be completely upset by China with its fantastic population growth. This night, I suggested, constitute a serious problem not only for other countries but also for the U.S.S.R., and [REDACTED] expressed definite agreement with this view. He disagreed, however, with my interpretation that China, having become aware after the 1953 census of the immensity of its population problem, had resorted to much more socially repressive ways of pushing ahead with economic development. He thought that China would succeed in sharply reducing its birth rate and would do so by "democratic methods," involving intensive discussion at local levels all over the country and developing public awareness of the problem. China would, he thought, avoid the "serious mistakes" that had been made in the Soviet Union. He felt that China deserved to be placed first among

all countries in the strength of its democratic processes, after which he would rank the U.K. second, the U.S. third, and the U.S.S.R. fourth.

25X1X6 [redacted] gave me three studies which he had prepared at his Institute, one on trade between the U.S.S.R. and the capitalist economies, another on trade between the U.S.S.R. and the underdeveloped economies, and the third an economic review of the capitalist economies in 1956 (all pretty dreary reading, I should imagine, even apart from the language barrier). He also gave me a volume just published of statistics of Soviet foreign trade in 1956--in long delayed fulfillment of a promise made when I was in E.C.E. Though also in Russian, the detail (154 pages of statistics) looks rather impressive, and I am told by Herbert Block in the State Department that, to his surprise, it shows Soviet trade in such items as nonferrous metals.

25X1X6 [redacted] said that he would like to pay a visit here to get acquainted and to obtain suggestions on sources to read in following U.S. economic developments. I said that I would get in touch with him after my return from vacation. Do you think that this could be arranged, and would any of you like to receive him?

25X1X6 Let me add that [redacted] views on the social aspects of Chinese economic development are sharply at variance with those I have received from several old Polish friends of mine now stationed in Washington, who describe the Chinese experience as "grandiose but terrible" and attribute it to a decision that only the most ruthless methods would suffice to push the Chinese economy up to acceptable levels within the next 25 years. They clearly regard Chinese influence as responsible for the stiffening of Moscow's policies towards "revisionism" in Poland and Yugoslavia, and believe that China (in contrast to the "one hundred flowers" doctrine of two years ago) now believes that an atmosphere of international tension is necessary in order to obtain the sacrifices demanded of the Chinese people.

One point of detail that may interest you is that the work of the Institute of World Economics (of which [redacted] was, much of the time, the effective head because the President, [redacted], suffered from poor health) was not only research but also partly operational. One of the main duties of its staff of 300, [redacted] told me, was to set the prices for Soviet exports and imports as a basis for foreign trade negotiations. This function included trade both with the Soviet bloc and with other countries. (The problem is a very troublesome one, because neither in the Soviet Union nor in the other countries of the bloc do prices or the structure of prices adequately reflect costs or scarcities, and also because relative price levels in these countries are not at all properly reflected in their exchange rates on each other. It is therefore necessary to set prices, for foreign trade purposes,

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in some arbitrary fashion, and, at least earlier and I think even now, prices ruling in the capitalist world are taken as a guide. It is therefore natural that this task should be in the nature of a research function, entrusted to the Institute because the staff includes experts in foreign trade commodities and in foreign languages. It may, however, also be a commentary on the limited volume and composition of Soviet foreign trade so far that this task could be carried out by only 300 people. Think of how many would be needed for such a job in this country! One would suppose that, as the Soviet economy grows and its trade becomes more varied in composition, they will have to rely more on market forces to determine their prices. I may add that, because of the arbitrary nature of internal prices and the varying gap between internal and external prices, the Soviet bloc countries have great difficulty in knowing whether any particular foreign trade operation is really profitable or not, and also great difficulty in planning what the structure of their trade with each other ought to be or how investment should be allocated—say, whether it is better to put up a new plow factory in Bulgaria, Hungary or the Soviet Union.)